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## FISCAL IMPACT REPORT

SPONSOR Silva DATE TYPED 2-10-2005 HB 423

SHORT TITLE Federal Research and Development Gross Receipts SB \_\_\_\_\_

ANALYST Taylor

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	(14,200)	Similar	Recurring	General Fund
	(9,500)	Similar	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to

### SOURCES OF INFORMATION

LFC Files

Taxation and Revenue Department (TRD)

### SUMMARY

House Bill 423 makes the following changes gross receipts tax and compensating tax provisions governing research and development services sold pursuant to grants or contracts with the U.S. Government:

1. The compensating tax deduction for test articles upon which research or testing is conducted in New Mexico is expanded from department of defense contracts to all federal government contracts. Also the definition of test articles is expanded to include tangible personal property or intangible personal property used for research or testing that is consumed as a result of the research or testing.
2. A new gross receipts tax deduction is provided for research and development gross receipts.
3. A new gross receipts tax deduction is provided for tangible personal property used for research and development services.
4. The current aero space services deduction is repealed.

The bill carries an effective date of July 1, 2005.

**FISCAL IMPLICATIONS**

TRD estimates that this bill would reduce general fund revenues by \$14.2 million and local government revenues by \$9.5 million in FY06.

TRD's analysis reports that total gross receipts eligible for the deduction is approximately \$360 million per year. They say that the estimate is based on tax return information and published information regarding federal procurement in the state.

The fiscal impact estimate implies a combined state and local government gross receipts tax rate of 6.6 percent.

**ADMINISTRATIVE IMPLICATIONS**

TRD reports that the fiscal impacts related to this bill would be minor.

BT/yr